

Message Text

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SUBJ: WIVIT EX-IM BANK DIRECTOR KOBELINSKI (JULY 22-25)

REF : A. STATE 153022, B. BELGRADE 3556

SUMMARY: ON FOUR DAY VISIT TO BELGRADE (JULY 22-25) MITCHELL KOBELINSKI, DIRECTOR EX-IM BANK DISCUSSED RECENT CHANGES IN EX-IM POLICY WITH LEADERS YUGOSLAV GOV'T BANKING AND BUSINESS COMMUNITIES. KOBELINSKI EXPLAINED REASONS FOR EX-IM POLICY CHANGES, NET EFFECT OF WHICH COULD BE TO SLOW DOWN RATE OF GROWTH EX-IM EXPOSURE IN YUGOSLAVIA IN NEXT FEW YEARS. HE ALSO EMPHASIZED EX-IM'S COMMITMENT TO CONTINUE TO ASSIST US EXPORTS TO YUGOSLAVIA. YUGOSLAVS GENERALLY UNDERSTOOD REASONS FOR CHANGES BUT COUPLED THIS WITH REMARKS THAT IMPORTS CAPITAL, TECHNOLOGY AND EQUIPMENT BY YUGOSLAVIA ARE ECONOMIC DECISIONS AND MAY BE AFFECTED BY THESE CHANGES. JUGOSLOVENSKI AEROTRANSPORT (JAT) RESPONSE, HOWEVER, INDICATED THAT COMPANY MAY BE SIGNIFICANTLY AND ADVERSELY AFFECTED BY EXIM'S NEW POLICIES. END SUMMARY.

1. MEMBER OF EXIM BOAR OF DIRECTORS, MITCHELL KOBELINSKI EXPLAINED RECENT EX-IM POLICY CHANGES (SEE REF A) IN THREE DAYS OF MEETINGS WITH YUGOSLAV ECONOMIC LEADERS INCLUDING BOZIDAR RADUNOVIC, DEPUTY SECRETARY OF FINANCE, AND DR. LIMITED OFFICIAL USE

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BRANISLAV COLANOVIC, GOVERNOR OF THE NATIONAL BANK OF YUGOSLAVIA

(REF B FOR FULL SCHEDULE). IN EXPLAINING REASONS FOR CHANGES AS THEY AFFECT YUGOSLAVIA, MR. KOBELINSKI DISCUSSED INCREASED COST MONEY GUENERALLY AND SPECIFICALLY POINTED OUT EX-IM NOW FUNDING PREVIOUS 6 PERCENT COMMITMENTS WHILE ACQUIRING MONEY AT 8 1/2 AND 9 PERCENT. YUGOSLAVIA IS ONE OF SIX NATIONS WHO TOGETHER ACCOUNT FOR 1/3 OF EX-IM'S CREDIT EXPOSURE AND EX-IM WISHES TO AVOID OVER-CONCENTRATION OF CREDIT. MR KOBELINSKI EMPHASIZED EX-IM DESIRE TO CONTINUE TO SUPPORT US EXPORTING TO YUGOSLAVIA. HE URGED THE YUGOSLAVS TO BE UNDERSTANDING OF EX-IM'S NEW POLICIES AND IMAGINATIVE IN WORKING WITH FINANCING PACKAGES THAT MAY INCLUDE REDUCED EX-IM PARTICIPATION. STRESSING THE IMPORTANCE OF THE BLENDED INTEREST RATE HE PROVIDED SUGGESTIONS TO STIMULATE THINKING BASED ON 30 PERCENT (7 PERCENT INTEREST) EX-IM ROLE. SUGGESTIONS INCLUDED LARGER DOWN PAYMENTS. POSSILBE EXPORTER PARTICIPATION IN CREDIT, USE OF PRIVAT EXPORT FUNDING CORPORATION (PEFCO). WITHING THIS CONTEXT MR. KOBELINSKI STRESSED EX-IM WILLINGNESS TO BE FLEXIBLE AND TO EXAMINE EACH PROJECT APPLICATION ON ITS MERITS.

2. YUGOSLAV RESPONSE WAS GENERALLY IN VEIN "THIS IS NOT GOOD NEWS", BUT WITH UNDERSTING OF REASONS, AND APPRECIATION THAT EX-IM FLEXIBLE AND WILL CONTINUE SUPPORT US EXPORT TO YUGOSLAVIA. THEY EXPRESSED GREAT SATISFACTION WITH PAST EX-IM ROLE IN YUGOSLAVIA AND DESIRE TO CONTINUE WORKING TOGETHER. MOST YUGOSLAVS CAUTIONED THAT EXPORT IS GOOD BUSINESS FOR EXPORTER AS WELL AS IMPORTER AND NOTED YUGOSLAVIA HAS MANY OFFERS FROM WESTERN EUROPE, JAPAN AND SOVIET UNION. THEY SAID EX-IM'S CHANGES WILL REQUIRE REVIEW OF BASIC ECONOMIC CRITERIA ON WHICH PROJECTS BASED.

3. DEPUTY FINANCE SECRETARY RADUNOVIC SAID YUGOSLAVIA HAS OFFERS FROM MANY SOURCES AROUND THE WORLD AND THAT ENTERPRISES WILL MAKE THE BEST ECONOMIC DEAL. HE NOTED EX-IM'S CREDIT TERMS HAVE BEEN A SIGNIFICANT FACTOR IN PAST DECISIONS AND WHILE QUALITY OF US EQUIPMENT ECXELLENT, CREDIT TERMS ALSO IMPORTANT. HE STRESSED USE EXIM CREDIT IS ECONOMICALLY JUSTIFIED HERE AND YUGOS-OSLAVIA WANTS TO KEEP A HIGH LEVEL OF BUSINESS WITH EXIM. RAPID EXPLOITATION OF RAW MATERIALS (COOPER, LEAD, ZINC, BAUXITE) IS APRIORITY AREA OF DEVELOPMENT - IN WHICH YUGOSLAVIA IS COUNTING ON EX-IM ASSISTANCE IN THE NEXT SEVERAL YEARS ACCORDING LIMITED OFFICIAL USE

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TO RADUNOVIC. IN THIS CONNECTION, HE SAID, SOME RAW MATERIALS MIGHT BE EXPORTED TO U.S. TO JUSTIFY U.S. PARTICIPATION. DIRECTOR DKOBELINSKI ASSURED HIM EX-IM WILL EXAMINE APPLICATIONS WHEN SUBMITTED AND EXPRESSED HOPE EX-IM WOULD BE IN POSITION ASSIST US EXPORT TO THE PROJECTS.

4. GOV. OF NATIONAL BANK COLANOVIC SAID HE BELIEVED PRESENT VOLUME OF ANNUAL APPLICATIONS BY YUGOSLAVIA WOULD NOT BE EXCEEDED IN

NEAR FUTURE. IF ABSOLUTE VOLUME NOT REDUCED HE THOUGHT YUGOSLAVIA COULD GET BY WITH RELATIVE REDUCTION IN SHARE EXIM PROGRAMS. HE COMMENTED THAT YUGOSLAVIA WILL TRY CONCENTRATE EX-IM APPLICATIONS IN PRIORITY AREAS. COLANOVIC NOTED THAT A PERIOD OF SUBSTANTIAL GROWTH OF REPAYMENT OF PREVIOUS CREDIT IS IMMINENT AND HE BELIEVES PREVIOUS INVESTMENTS HAVE BEEN PRODUCTIVE AND FOREIGN EXCHANGE WILL BE AVAILABLE WITHOUT DIFFICULTY FOR REPAYMENTS. COLANOVIC SAID IT BEST TO KEEP CURRENT MECHANISM WHERE EACH APPLICATION IS CONSIDERED ON ITS MERIT AND NO COUNTRY CEILING PLACED ON EX-IM CREDITS. WE CAN BE PRACTICAL HE SAID AND DISCUSS EACH APPLICATION, BUT A CEILING WOULD BE DETRIMENTAL AND COULD CAUSE REVISION OF ALL YUGOSLAV-US RELATION. DIRECTOR KOBLINSKI AGREED A COUNTRY CEILING ON CREDIT WOULD BE DETRIMENTAL AND IT WAS TO AVOID EVEN THAT KIND OF POSSIBILITY THE HE HOPED YUGOSLAVIA WOULD UNDERSTAND EX-IM'S NEW POLICIES.

5. JUGOSLOVENSKI AEROTRANSPORT (JAT) REPRESENTATIVES EXPRESSED SERIOUS CONCERN EFFECT EX-IM CHANGES ON JAT. THEY SAID TERMS OF RECENT EX-IM LOAN TO JAT ANNOUNCED JUNE 26 (EX-IM FINANCING 45 PERCENT TOTAL BUT WITHOUT GUARANTEES FOR COMMERCIAL 45 PERCENT) WILL COST JAT EXTRA \$2 MILLION AND PLACE DEAL IN JEOPARDY. THEY ASKED FOR RECONSIDERATION THIS LOAN TO INCLUDE EX-IM GUARANTEE. EX-IM CHANGES AUGURING FURTHER REDUCTION IN PARTICIPATION IN FUTURE LOANS PORTRAYED AS SERIOUS COMPLICATIONS JAT'S CURRENT EXPANSION PLANS WHICH THEY CALLED MOST DIFFICULT DECISIONS IN JAT HISTORY. JAT'S CASE WAS TAKEN UP BY RADUNOVIC, COLANOVIC AND OTHERS DURING VISIT.

6. IN DISCUSSIONS, SUBJECTS OF JOINT VENTURES AND POSSIBLE US (EX-IM SUPPORTED) YUGOSLAV COOPERATION IN THIRD WORLD CONSTRUCTION PROJECTS WERE FREQUENTLY MENTIONED. YUGOSLAVS EMPHASIZED DISAPPOINTMENT THAT JOINT VENTURES WITH U.S. COMPANIES HAVE NOT EXPANDED FASTER. YUGOSLAVS EXPRESSED ENTHUSIASM LIMITED OFFICIAL USE

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IDEA OF U.S. (EX-IM FINANCED) TECHNOLOGY AND EQUIPMENT COMBINING WITH YUGOSLAV ENGINEERING FIRMS ON 3RD WORLD CONSTRUCTION PROJECTS.

7. MEMORANDUMS OF CONVERSATION WILL BE SENT LATER UNDER COVER OF AIRGRAM. THIS TELEGRAM NOT RPT NOT CLEARED WITH KOBLINSKI PRIOR HIS DEPARTURE.
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